

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| THE APPLICATION OF NOLIN RURAL ELECTRIC |) | |
| COOPERATIVE CORPORATION FOR A DEVIATION |) | CASE NO. 94-357 |
| FROM THE SETTLEMENT AGREEMENT OF 10/11/90 |) | |
| IN CASE NO. 90-064 |) | |

O R D E R

On March 28, 1995, Nolin Rural Electric Cooperative Corporation ("Nolin") filed a petition requesting the Commission to vacate its March 13, 1995 Order and sought rehearing. Nolin indicated that if it complied with the directive of that Order to retire 1993 capital credits by April 30, 1995, it would be in direct violation of mortgage agreements with its lenders, the Rural Utilities Service ("RUS") and the National Rural Utilities Cooperative Finance Corporation ("CFC"). Correspondence received from RUS indicated that such a violation could compromise loan applications pending before both lenders. The Commission granted Nolin's request on April 14, 1995.

RUS and CFC require their borrowers to maintain a Current Ratio, the ratio of current assets to current liabilities, of 1.0 or higher after the retirement of capital credits. Nolin's financial analysis shows a Current Ratio of below 1.0 since July 1994. Nolin affirmed its obligation to making the 1993 retirement, but indicated a fiscal inability to do so until pending long-term loans are available and its line of credit draw is repaid.

Based on the evidence of record, and being otherwise sufficiently advised, the Commission finds that Nolin's financial condition should improve during 1995. Nolin's proposal to retain the savings from reduced purchased power costs¹ and its anticipated long-term loans should lead to improvements in its Current Ratio and the availability of funds to make the 1993 retirements. However, Nolin should not rely exclusively on its ability to obtain long-term loan funds to improve its weak Current Ratio. Every reasonable effort should be made to improve this ratio by achieving a proper balance of loan funds and general funds to finance capital expenditures. To monitor this effort, the Commission will require Nolin to report its Current Ratio with its monthly financial reports starting with the first month reported after the date of this Order. In the event the ratio exceeds 1.0, it should be recalculated assuming the payment of the capital credits.

In addition, Nolin should notify the Commission in writing within 10 days of requisitioning funds from RUS and CFC, receiving those funds, and repaying its line of credit draw. Further, Nolin's 1993 capital credit retirement should be made within 60 days of repaying its line of credit draw and the Commission should be notified of how the retirement was funded.

¹ Case No. 94-402, Application of Nolin Electric Cooperative Corporation to Adjust Electric Rates.

IT IS THEREFORE ORDERED that:

1. Nolin shall pay its 1993 capital credit retirements within 60 days of repaying its line of credit draw and notify the Commission of how the retirement was funded.

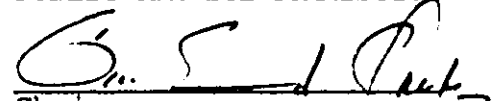
2. Nolin shall revise its monthly financial report to include a calculation of its Current Ratio and when it exceeds 1.0, Nolin shall include a recalculation assuming the payment of 1993 capital credits.

3. Nolin shall file written notice with the Commission within 10 days of its:

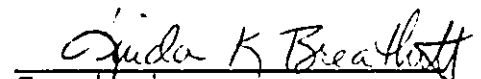
- a. Requisition of loan funds from RUS and CFC.
- b. Receipt of loan funds from RUS and CFC.
- c. Repayment of line of credit draw.

Done at Frankfort, Kentucky, this 5th day of July, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director